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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
whether there has been a violation of the
Securities Act of Washington by:

LONZO ARCHER,

Respondent.

Order No. S-03-029-03-SC01

STATEMENT OF CHARGES AND NOTICE
OF INTENT TO ENTER AN ORDER TO
REVOKE REGISTRATIONS, IMPOSE
FINES, CHARGE COSTS, AND ORDER
DISGORGEMENT

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THE STATE OF WASHINGTON TO:

Lonzo Archer, CRD #1979672
655 Third Avenue, 14th Floor
Room 1416-1420
New York, NY 10017

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STATEMENT OF CHARGES

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Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondent, Lonzo Archer, has violated the Securities Act of Washington. The Securities Administrator believes those violations justify the entry of an order revoking Lonzo Archer's securities salesperson registration, imposing fines, charging costs, and ordering disgorgement pursuant to RCW 21.20.110. The Securities Administrator finds as follows:

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TENTATIVE FINDINGS OF FACT

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RESPONDENT

1. Lonzo Archer ("Archer") is a securities salesperson with First Montauk Securities Corp. ("First Montauk Securities") and has been employed there since August 2002. He has been registered as a securities salesperson with the Washington State Securities Division since February 2001, and was previously so registered from February 1994 to April 1998. Archer was employed by Mantis Securities,

1 Inc. (“Mantis Securities”) as a securities salesperson from September 2000 to August 2002.¹ Prior to
2 that, Archer was employed as a securities salesperson for fourteen different broker-dealers in eleven
3 years, including Northridge Capital Corporation from August 1999 to August 2000, G.F.B. Securities,
4 Inc. from March 1998 to August 1999, William Scott & Co. L.L.C from December 1996 to March 1998,
5 Rickel & Associates, Inc. from February 1996 to December 1996, FAB Securities of America, Inc. from
6 May 1995 to February 1996, Global Equities Group Inc. from April 1995 to May 1995, A.T. Brod & Co.
7 Inc. from June 1994 to March 1995, S.D. Cohn & Co., Inc. from February 1994 to June 1994, Westfield
8 Financial Corporation from June 1993 to February 1994, LCP Capital Corp. from October 1992 to
9 January 1993, Prudential Equity Group, Inc. from February 1992 to October 1992, GKN Securities Corp.
10 from January 1991 to March 1991, R.H. Damon & Co., Inc. from April 1990 to January 1991, and
11 Barrett Day Securities, Inc. from August 1989 to January 1990. Archer currently resides in New
12 Brunswick, New Jersey.

13 NATURE OF RESPONDENT’S CONDUCT

14 2. Burt S. and Virginia S.² (“Burt and Virginia”) are Washington residents, ages sixty-six and
15 fifty-seven, respectively.

16 3. Burt received an unsolicited telephone call from Lonzo Archer (“Archer”) of Mantis
17 Securities in approximately February of 2001. Archer offered his services as a securities salesperson.
18 Burt was initially not interested in opening an account with Archer. Archer then mentioned a number of
19 stocks he was recommending and asked Burt to track their performance. Archer phoned Burt again
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21 ¹ Mantis Securities withdrew their broker-dealer registration in the state of Washington on or about September 30, 2002.

22 ² The full names of the customers are omitted to protect their privacy.

1 several times over the next few months to ask if he had followed the stocks, which had performed well.
2 Because the stocks Archer had told Burt to track had done well, Burt gained confidence in Archer's
3 ability to manage his investments. Burt decided to open an account with Mantis Securities and signed a
4 new account application in May 2001. Burt transferred a Roth individual retirement account (IRA)
5 account, hereinafter referred to as Account I, worth approximately \$42,000 to Mantis Securities in June
6 2001.

7 4. Burt and Virginia have minimal investment experience. Burt and Virginia had never
8 directed their own investments until 1998. At that time, they purchased a few stocks, which they later
9 sold during the market correction of 2000. The bulk of their assets continued to be held in retirement
10 accounts that were not self-directed. Burt and Virginia's main investment objective was to supplement
11 their retirement savings. Speculation was not one of their investment objectives.

12 5. Upon opening the account, Archer agreed to obtain Burt's authorization prior to making
13 trades. Burt received his first trade confirmation in the mail from Mantis Securities in June of 2001, a
14 purchase of 3,000 shares of Mim Corp., a small-capitalization stock. Archer had not contacted Burt prior
15 to making the trade. Burt called Archer for an explanation. Archer explained that the market moved too
16 quickly to call about every trade. Subsequent to this conversation, Archer continued to make trades
17 without contacting Burt. In fact, Archer never contacted Burt prior to the purchase or sale of securities.
18 Burt would learn about the transactions through receipt of the trade confirmations in the mail from
19 Mantis Securities. If he wanted to speak with Archer to discuss his account, Burt had to initiate the
20 phone call.

21 6. From June 2001 to March 2002, Burt believed Archer's trading was profitable, as the value
22 of Account I had doubled. As a result, Burt and Virginia decided to transfer two of Virginia's accounts

1 to Mantis Securities. In March of 2002, they transferred a Roth IRA account of Virginia's, hereinafter
2 referred to as Account II, worth approximately \$100,000. In April of 2002, they also transferred a
3 Rollover IRA account of Virginia's, hereinafter referred to as Account III, worth approximately \$97,000.
4 Archer made trades in Virginia's accounts without contacting her. In fact, Virginia never spoke with
5 Archer.

6 7. At the time all three accounts had been transferred to Mantis Securities, Burt and Virginia's
7 annual income was approximately \$50,000 per year. The accounts represented over a quarter of their net
8 worth.

9 8. From June 1999 through September 2002, Archer bought approximately \$500,000 worth of
10 securities in Account I. From April 2002 through September 2002, Archer purchased approximately
11 \$91,000 worth of securities in Account II, and \$57,000 worth of securities in Account III. All of the
12 securities purchased by Archer were stocks. Further, virtually all the stocks purchased were low priced
13 small capitalization ("small cap") stocks.³ Investing in small-cap stocks involves substantial risk. Small-
14 cap stocks are companies that are usually less established and lack financial resources, so their stock
15 price tends to be highly volatile. By Archer's own admission, the companies he was recommending to
16 Burt and Virginia were "speculative and growth oriented."

17 9. From May 3, 2002 through May 28, 2002, Burt and Virginia were in Europe on vacation.
18 During this time period, they could not be contacted by telephone and in fact had no contact with Archer.
19 Archer made over a dozen trades during this time period.

21 ³ For purposes of this Statement of Charges, a small-cap stock is defined as a stock with a market capitalization (number of shares outstanding multiplied by stock
22 price) of \$500 million or less.

1 10. As described above, Archer engaged in a heavy volume of trading in all three of Burt and
2 Virginia's accounts. Archer held most of the stocks he purchased in the accounts for only a few weeks or
3 months before selling them in order to purchase new stocks. This volume of trading generated excessive
4 commissions given the size of the accounts. From June 1999 to September 2002, Burt and Virginia paid
5 over \$35,000 in commissions for their three accounts. Simply to meet the expenses of maintaining the
6 account, Account I needed to produce an investment return of over 40%.⁴

7 11. Archer left Mantis Securities and became employed by First Montauk Securities in August
8 of 2002. Burt and Virginia transferred their accounts to First Montauk Securities in early September
9 2002. Around this same time period, Burt and Virginia became extremely concerned about their
10 accounts, which had been rapidly declining in value over the last several months. Burt and Virginia were
11 especially concerned about Archer's excessive purchases of two small-cap stocks, Eagle Supply Group
12 Inc. and Advanced Environmental Recycling Technologies Inc. Beginning in February 2002 and
13 continuing through July 2002, Archer purchased a collective total of close to 50,000 shares of Eagle
14 Supply Group Inc. for close to \$150,000 in their three accounts. In March and April 2002, Archer
15 purchased a collective total of 14,500 shares of Advanced Environmental Recycling Technologies Inc.
16 for close to \$34,000 in their three accounts. At the time of these purchases, both stocks were trading for
17 between \$2 and \$4 per share.

18 12. Burt and Virginia decided to terminate their association with Archer and sent him a letter
19 dated October 1, 2002 asking him to cease trading. Burt and Virginia's accounts were then transferred to
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21 ⁴ This return is calculated by dividing the commissions, margin interest, and other expenses paid by the average net equity of the account.

1 J.B. Oxford & Company, the clearing brokerage firm for Mantis Securities. Burt directed all further
2 trading from this point forward. Burt and Virginia attempted to mitigate their losses by selling the
3 securities that Archer had purchased in their accounts. Burt and Virginia sold all the stock purchased by
4 Archer within a few months.

5 13. In addition to the \$35,000 in commissions they paid, Burt and Virginia also suffered
6 substantial losses in value during the short time period in which Archer controlled their accounts.
7 Account I lost approximately \$1,300, Account II lost approximately \$51,000, and Account III lost
8 approximately \$66,000. Collectively, these losses account for approximately 54% of the funds Burt and
9 Virginia entrusted to Archer.

10 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

11 **CONCLUSIONS OF LAW**

12 1. The offer and/or sale of the stocks described above constitutes the offer and/or sale of a
13 security as defined in RCW 21.20.005(10) and (12).

14 2. Lonzo Archer, as described above, has willfully violated RCW 21.20.702 by
15 recommending the purchase and sale of securities to Burt and Virginia S. without reasonable grounds to
16 believe that the transactions were suitable for them. Such practice is grounds for the revocation of his
17 salesperson registration pursuant to RCW 21.20.110(1)(b), and for the imposition of fines pursuant to
18 RCW 21.20.110(1).

19 3. Lonzo Archer, as described above, has willfully violated RCW 21.20.035 by knowingly
20 effecting transactions in the accounts of Burt and Virginia S. that were excessive in size and frequency in
21 view of the financial resources and character of the accounts, and that were effected by reason of Burt
22 and Virginia S.'s trust and confidence in Archer. Such practice is grounds for the revocation of his

1 salesperson registration pursuant to RCW 21.20.110(1)(b), and for the imposition of fines pursuant to
2 RCW 21.20.110(1).

3 4. Lonzo Archer, as described above, engaged in one or more dishonest and unethical
4 practices in the securities business, as defined by WAC 460-22B-090(6), by inducing trades in the
5 accounts of Burt and Virginia S. that were excessive in size and frequency in view of the financial
6 resources and character of the accounts. Such practice is grounds for the revocation of his salesperson
7 registration pursuant to RCW 21.20.110(1)(g), and for the imposition of fines pursuant to RCW
8 21.20.110(1).

9 5. Lonzo Archer, as described above, engaged in one or more dishonest or unethical practices
10 in the securities business, as defined by WAC 460-22B-090(9), by exercising discretionary power in
11 effecting transactions for the accounts of Burt and Virginia S. without first obtaining written
12 discretionary authority from them. Such practice is grounds for the revocation of his salesperson
13 registration pursuant to RCW 21.20.110(1)(g), and for the imposition of fines pursuant to RCW
14 21.20.110(1).

15 **NOTICE OF INTENT TO REVOKE REGISTRATION**

16 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and
17 Conclusions of Law, the Securities Administrator intends to order that the securities salesperson
18 registration of Respondent Lonzo Archer be permanently revoked.

19 **NOTICE OF INTENT TO IMPOSE FINES**

20 Pursuant to RCW 21.20.110(1), and based upon the above Tentative Findings of Fact and
21 Conclusions of Law, the Securities Administrator intends to order that Respondent Lonzo Archer shall be
22 liable for and pay a fine in an amount not to exceed \$20,000.

1 **NOTICE OF INTENT TO CHARGE COSTS**

2 Pursuant to RCW 21.20.110(7), and based upon the above Tentative Findings of Fact and
3 Conclusions of Law, the Securities Administrator intends to order that Respondent Lonzo Archer shall be
4 liable for and pay the costs, fees, and other expenses incurred in the conduct of the administrative
5 investigation and hearing of this matter.

6 **NOTICE OF INTENT TO ORDER DISGORGEMENT**

7 Pursuant to RCW 21.20.110(8), and based upon the above Tentative Findings of Fact and
8 Conclusions of Law, the Securities Administrator intends to order that Respondent Lonzo Archer shall
9 disgorge the commissions he earned, as described above, in an amount of \$35,000.

10 **AUTHORITY AND PROCEDURE**

11 This Order is entered pursuant to the provisions of RCW 21.20.110, and is subject to the
12 provisions of RCW 21.20.120 and Chapter 34.05 RCW. The Respondent may make a written request for
13 a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR
14 HEARING accompanying this Order. If the Respondent does not request a hearing, the Securities
15 Administrator intends to adopt the foregoing Tentative Findings of Fact and Conclusions of Law as final,
16 and enter a permanent order against the Respondent revoking his registration, imposing fines, and
17 ordering disgorgement as described above.

18 DATED this 19th day of December, 2003.

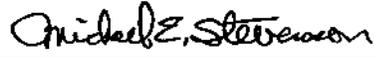
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22 **DEBORAH R. BORTNER**
Securities Administrator

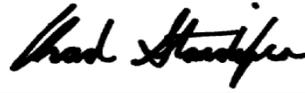
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Approved by:

Presented by:



Michael E. Stevenson
Chief of Enforcement



Chad C. Standifer
Staff Attorney